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UNCLAS SECTION 01 OF 02 PRETORIA 000663

SIPDIS

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E.O. 12958: N/A
TAGS: ECIN ECON EIND ETRD
SUBJECT: SOUTH AFRICAN AUTO INDUSTRY SUFFERING

REF: PRETORIA 000209

PRETORIA 00000663 001.2 OF 002

¶1. (SBU) Summary. The global economic crisis may cause South African auto exports to drop by 35 percent in 2009, according to the National Automobile Manufacturer's Association of South Africa. The downturn in the export market combined with a sharp decline in domestic sales have lead the beleaguered auto industry to request assistance from the South African Government (SAG). The industry has proposed a variety of measures to improve its cash flow and its access to credit as well as consumer incentives to purchase automobiles. The SAG has not yet released an assistance plan and the industry does not expect it to raise tariffs. End Summary.

A "DIRE, DIRE SITUATION"

¶2. Trade and Investment Officer and Economic Specialist met with National Automobile Manufacturers Association of South Africa (NAAMSA) Director Nico Vermeulen on March 13 to discuss the effect of the global economic crisis on the local auto industry. According to Vermeulen, the industry is facing a "dire, dire situation" because South Africa's primary export markets are in recession. He predicted that 2009 would bring a 35 percent decline in auto exports, and he did not expect a turnaround until sometime late in 2010. Meanwhile, domestic sales over the last 22 months have also taken a hit as consumers tighten their belts in response to hard economic times.

¶3. The bleak picture for exports and domestic sales has caused the auto companies and components manufacturers to have an "unrelenting focus on taking costs down," Vermeulen said. The major multinational manufacturers with operations in South Africa are reviewing their export figures on a weekly basis, and manufacturers and importers are downsizing their operations in tandem with weakening sales prospects. NAAMSA estimates that 30,000 NAAMSA associated jobs (out of a total of approximately 110,000) could be at risk in 2009. Vermeulen commented that the companies are at an impasse with the unions: the companies want to cut costs, while unions want a moratorium on layoffs.

AUTO INDUSTRY SEEKS SAG ASSISTANCE

¶4. The auto industry has asked the SAG for financial

assistance, but Vermeulen distinguished the industry's request for assistance from the auto industry bailout in the U.S., saying, "no one is looking for handouts." He said that the industry wants the SAG to assist it with cash flow and to facilitate its access to credit. Auto industry representatives have proposed that the state-owned Industrial Development Corporation (IDC) factor the receivables of original equipment manufacturers (OEMs) in order to provide the OEMs with ready cash. NAAMSA has proposed that the Unemployment Insurance Fund (UIF) advance some of its R27.5 billion ($2.7 billion) to the IDC at 0 percent interest. The IDC would then lend the money to auto companies at a low interest rate (/- 2 percent). He conceded that this proposal was "creative," but said the UIF and the auto industry support the idea. The industry's other proposals include selling import rebate certificates and reducing interest rates. The industry also suggested that the SAG consider offering tax incentives for auto purchases.

¶5. Vermeulen did not know when or how the SAG would respond
Q5. Vermeulen did not know when or how the SAG would respond
to the industry's proposals. He said that Department of Trade and Industry does not wish to unrealistically raise expectations of government assistance, and the National Treasury "has no appetite to release funds." He expects the sector will "make do with what it has." Vermeulen predicted that if the South African Reserve Bank continues to lower interest rates, the industry will see a domestic turnaround by the second half of 2009. (Note: The SARB slashed the policy interest rate by a cumulative 250 basis points since December 2008.)

¶6. Vermuelen said the SAG will not raise tariffs in order to protect the industry. He remarked that while component manufacturers and unions support the idea of raising tariffs,

importers and distributors who comprise the majority of NAAMSA's membership believe that raising tariffs would have serious consequences that would outweigh the potential benefits. He said that raising tariffs would raise the ire of trading partners and invite retaliation. The idea of raising tariffs is a "horse that won't run." (Comment: Raising tariffs on imported components could also increase the cost of assembled vehicles, reducing the competitiveness of vehicle exports. Vehicle exports now represent almost half of domestic vehicle production. End Comment.)

SOUTH AFRICA'S AUTO INDUSTRY: A SNAPSHOT

¶7. South Africa's automotive industry (including components) has grown to be the largest manufacturing sector in South Africa, accounting for 15 percent of manufacturing output and 6.9 percent of GDP in 2008. Vehicle exports grew from 15,764 units in 1995 to an estimated 295,000 units in 2008. Vehicle exports as a percentage of total domestic vehicle production increased from 4 percent in 1995 to 48 percent in 2008 and represented 10 percent of total exports in 2008. As noted above, the industry employs about 110,000 workers, making it one of the largest employers in South Africa. The industry has benefited from extensive government subsidies and is considered a model for industrial policy in many parts of the SAG.

COMMENT

¶8. The South African auto industry is likely to remain export-oriented, but the immediate future of the industry is uncertain. Auto makers are struggling to adapt to the reduced global demand for exports and the downturn in domestic demand. The industry believes that dedicated government assistance as necessary for its survival, but the

industry must also implement reforms to reduce costs and improve operations.
LA LIME